UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Rate Adjustment Due to Extraordinary   Docket No. R2013-11
or Exceptional Circumstances

PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

(Issued October 23, 2013)

To clarify the Postal Service request for rate adjustments due to extraordinary or exceptional circumstances, filed September 26, 2013, the Postal Service is requested to provide written responses to the following questions. Answers should be provided no later than October 30, 2013.

The following questions (questions 1-3) refer to the Further Statement of witness Thress at page 4, Table One: "Exigent FY 2008 – 2012 Losses Attributable to the Great Recession":

1.   You indicate that for Standard Mail the change (decline) in volume from 2008 through 2012 attributed to the Great Recession "Macro Economy and Recession-Induced Factors" amounted 29.1 billion pieces (*see* Second Row, last column in Table 1). At the same time, RPW reports show changes in the total volume of Standard Mail over this same period as follows (in thousands):

2008	99,084,155
2012	79,801,009
Change (decline)	19,283,146

a.   Is it correct to say that your estimated total decline in Standard Mail volume attributed to the Great Recession (29.1 billion pieces) is equal to 151.0 percent of the actual decline in volume (19.3 billion pieces) shown in the RPW reports? If not, please explain.

b. Please explain why your estimating procedure attributes to the Great Recession a far greater change (decline) in the volume of Standard Mail, by almost 10 billion pieces, than actually occurred according to RPW reports.

2. You indicate that for First-Class Mail the change (decline) in volume from 2008 through 2012 that was attributable to the Great Recession "Macro Economy and Recession-Induced Factors" amounted to 22.6 billion pieces (*see* First Row, last column in Table 1). At the same time, RPW reports show changes in the total volume of First-Class Mail over this period as follows (in thousands):

2008	91,696,737
2012	69,639,569
Change (decline)	22,057,168

a. Is it correct to say that your estimated decline in First-Class Mail volume due to the Great Recession is equal to 102.0 percent of the actual decline in RPW volume for First-Class Mail? If not, please explain.

b. Please explain why your estimating procedure attributes to the Great Recession a greater change (decline) in the volume of First-Class Mail than actually occurred according to the RPW reports.

3. In the right-hand column of Table 1, you provide the lost volume attributed to the Great Recession for the period 2008-2012 computed for each class of mail.

a. For the total estimated lost volume shown in that last column, have you computed any statistical measures of variation for any of the listed classes of mail?

b. If part a. is answered affirmatively, please indicate what statistical measures you computed. Provide the library reference or the source where these measures/results of statistical analysis can be found.

c.   If part (a). is answered affirmatively, please provide the 95 percent confidence interval for the estimated changes in volume shown in the last column of Table 1 for the 2008-2012 period by class.

d.   If you did not compute statistical confidence intervals for the estimated loss in mail volume attributed to the Great Recession, please explain why not.

4.   Please refer to the Further Statement of witness Thress, page 8, Table Two: "Exigent Postal Service Losses, FY2008 – 2012 and Technical Appendix II," pp. II-8 through II-10.

a.   i.   Are the zeros for each year shown in Table 2 the result of statistical calculations?

ii.   Does your model contain data on variables that can be used to estimate diversion of Standard Mail attributable to the internet, for example?

iii.   If the answer to subpart (a.ii) is yes, do the performed statistical calculations indicate that there is no diversion? If so, please identify and describe those variables, and any analysis performed.

b.   If your model does not contain any variables that can be used to estimate diversion of Standard Mail, would it explain the zeros under the Diversion column? Please provide your rationale and any data supporting your opinion that diversion of Standard Mail to other media either cannot or has not occurred.

c.   When estimating the loss in Standard Mail volume for the years 2008-2012, is it possible that non-consideration of diversion (and exclusion of variables that might measure such diversion) could increase the volume loss attributed to "Macro Economy and Recession-Induced Factors?" If so, please explain why. If not, please explain why not.

d.   Does your model for Standard Mail contain as an independent variable the amount spent on Internet advertising, either in total or, preferably, the

amount spent by catalog mailers? If so, please identify and describe this variable. If not, please explain why not.

5. Please refer to Further Statement of witness Thress, page 8-10, Table Two: "Exigent Postal Service Losses, FY2008 – 2012".

    a. Is it correct that in 2012 you estimate 1,911.6 million pieces of First-Class Mail were lost on account of diversion, *i.e.*, the Internet, pay-by-phone, and other factors that might cause diversion, while a loss of 3,546.2 million pieces were attributable to the Macro-Economy and Recession-Induced Factors, *i.e.*, in 2012, lingering effects of the Great Recession were almost twice as important to explaining volume loss in First-Class Mail as was diversion caused by the Internet, pay-by-phone, and other factors that might cause diversion?

    b. Would it be a correct interpretation of the data in Table 2 that for the 5-year period of 2008-2012 you attribute a loss of 22,590.2 million pieces of First-Class Mail to the Macro-Economy and Recession-Induced Factors, and over that same 5-year period, you attribute a loss of 11,278.2 million pieces of First-Class Mail to diversion?

    c. Would it be a correct interpretation of the data in Table 2 that from 2008-2012, you attribute a loss of 29,121.5 million pieces of Standard Mail to the Macro-Economy and Recession-Induced Factors, while over that same period, you believe no volume loss occurred in Standard Mail as a result of diversion?

6. Please refer to Further Statement of witness Thress, page 8-10, Table Two: "Exigent Postal Service Losses, FY2008 – 2012."

    a. Do you contend the year after year increase in cumulative negative impact of the recession on mail volume will continue in years after FY2012?

    b. Is it likely that the model from which the data in Table 2 are derived (or developed) will continue to attribute positive losses indefinitely under the "Macro-economy and Recession-induced" factor?

c.   If you answered affirmatively to either part (a) or (b), please indicate when
      you expect the effect of the 2007-2009 recession to no longer have an
      impact on mail volumes. Please produce all available supporting data and
      analysis.

d.   If you answered negatively to either part (a) or (b), please clarify under
      what circumstances would estimates from the model used here phase
      down to zero the estimated annual losses from the "Macro-Economy and
      Recession-Induced Factors."

e.   If the economic recovery were to accelerate and become more robust, and
      private investments were to exceed their highest previous levels, could the
      "Macro-Economy and Recession-Induced Factors," instead of having
      losses in volume attributed to it would reverse and have positive gains
      attributed to it in those years?

f.   In your model, can "Macro-Economy and Recession-Induced Factors" only
      have a negative or zero effect on volume (as opposed to a positive effect
      on volume)? If so, please explain your rationale for not allowing Macro-
      Economy and/or Recession-Induced Factors to have a positive effect on
      volume in your model.

The following questions (questions 7-8) refer to Further Statement of witness
Thress, page 8-10, Table Two: "Exigent Postal Service Losses, FY2008 – 2012."

7.   In First-Class Mail, the cumulative effect of nominal price from 2008-2012 is a
      reduction in volume of 3,588.9 million pieces, and the cumulative effect of
      inflation over the same period is a gain in volume of 2,392.8 million pieces. The
      net effect of these two is a volume loss of 1,196.1 million pieces, or about 1.3
      percent of the starting First-Class Mail volume of 95,347.0 million pieces.

      For Standard Mail, the cumulative effect of nominal price from 2008-2012
      is a reduction in volume of 10,219.1 million pieces, and the cumulative effect of
      inflation over the same period is a gain in volume of 5,614.2 million pieces, for a

net volume loss of 4,604.9 million pieces, or about 4.5 percent of the starting Standard Mail volume of 102,968.5 million pieces.

Under the PAEA, First-Class Mail and Standard Mail are both subject to the same CPI-rate cap, or Nominal Price Change. In view of that, what are the principal reasons why the combined effects of nominal price and inflation appear to be so much greater for Standard Mail (4.5 percent of starting volume) than they are for First-Class Mail (1.3 percent of starting volume)?

8.   Table 2 indicates that in 2011, the Postal Service lost 1,407.5 million pieces of Standard Mail attributable to the Great Recession.

2008-2011	27,397.0
2008-2010	25,989.5
Change (decline), 2010-2011	-1,407.5

However, RPW reports indicate that over the same time period the volume of Standard Mail increased as follows (in millions):

2011	84,691.971
2010	82,524.808
Change (increase), 2010-2011	2,167.163

a.   Please confirm that your model estimates that in 2011, when actual Standard Mail volume increased by 2,167.2 million pieces, there were losses in volume attributable to the Great Recession of 1,407.1 million pieces.

b.   If part (a) is confirmed, please explain why you believe this result is correct.

c.   If part (a) is not confirmed, please explain.

9.   Please refer to the column headed "Macro-Economy & Recession Induced Factors" in Table 2.

a.   Please explain why the trend component of any macro-economic variable would be related to the 2007-2009 recession.

b.   Please explain why the volume effects derived from the trend component of macro-economic variables should be classified as recession-related, as you have done for First Class Single-Piece Letters, Cards, and Flats, as well as for Standard Nonprofit Mail.

c.   Please explain why the volume effects derived from total macro-economic variables, which combine both trend and cyclical components, should be classified as related to the recession, as you have done for Standard Regular Mail and for Standard ECR Mail.

d.   Please identify all data, studies, and analyses on which your responses to parts (a) through (c) rely, and produce any such items that have not already been produced in this docket.

Ruth Y. Goldway
Presiding Officer